

# Internal Audit Department

O R A N G E C O U N T Y  
5<sup>th</sup> Largest County in the USA

**FINAL CLOSE-OUT**

## FIRST FOLLOW-UP AUDIT:

# AUDIT OF TAX REDEMPTION OFFICER RECORDS AND ACCOUNTS

**AS OF MARCH 31, 2010**

Our First Follow-Up Audit found the Treasurer-Tax Collector fully implemented the seven (7) recommendations from our original audit report dated April 16, 2009. The Treasurer-Tax Collector properly calculated and collected over \$241 million in delinquent property taxes, interest and penalties for the three years ending June 30, 2008.

AUDIT NO: 2917-C  
REPORT DATE: JUNE 29, 2010

(ORIGINAL AUDIT NO. 2812)

**Director:** Dr. Peter Hughes, MBA, CPA  
**Deputy Director:** Eli Littner, CPA, CIA  
**Senior Audit Manager:** Alan Marcum, CPA, CIA  
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**RISK BASED AUDITING**

GAO & IIA Peer Review Compliant – 2001, 2004, 2007



2009 Association of Certified Fraud Examiners' Hubbard Award  
For the Most Outstanding Article of the Year



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of  
Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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 OC Internal Audit Department, visit our website: [www.ocgov.com/audit](http://www.ocgov.com/audit)



**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 2917-C June 29, 2010**

**TO:** Members, Board of Supervisors

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** **First and Final Close-Out** Follow-Up  
Audit of Tax Redemption Officer Records  
and Accounts, Original Audit No. 2812,  
Issued April 16, 2009

We have completed a First Follow-Up Audit of Tax Redemption Officer Records and Accounts. Our audit was limited to reviewing, as of March 31, 2010, actions taken to implement seven (7) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the seven (7) audit recommendations, **this report represents the close-out of the original audit.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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Tax Redemption Officer Records and Accounts  
Audit No. 2917-C*

As of March 31, 2010

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# OC Internal Auditor's Report



Audit No. 2917-C

June 29, 2010

TO: Members, Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up Audit of  
Tax Redemption Officer Records and Accounts  
Original Audit No. 2820, Issued September 16, 2009

## Scope of Review

We have completed a First Follow-Up Audit Tax Redemption Officer Records and Accounts. Our audit was limited to reviewing, as of March 31, 2010, actions taken to implement **seven (7) recommendations** from our original audit report dated April 16, 2009 (Audit No. 2812).

## Background

We conducted an audit of the Treasurer-Tax Collector Redemption Section pursuant to Section 4108.5 of the California Revenue and Taxation Code for the purpose of evaluating the reliability and integrity of financial and operational tax redemption records and compliance with laws and regulations governing redemption activities. The audit identified seven findings and recommendations related to supervisory reviews of suspense account items, monitoring of processed penalty cancellations, taxpayer installment plans, reconciliations, and the submission of accounting statements to the Auditor-Controller. During the original audit period, the total dollar volume of redemption taxes and penalties collected was approximately **\$204.3 million** for secured taxes and **\$36.8 million** for supplemental taxes.

## Results

Our First Follow-Up Audit indicated the Treasurer-Tax Collector fully implemented all seven (7) recommendations. **As such, this report represents the final close-out of the original audit.** Based on the First Follow-Up Audit we conducted, the following is the implementation status of the seven recommendations:

### 1. Supervisory Review & Resolution of Suspense Account Items (Significant Issue)

We recommend the TTC perform regular supervisory reviews of the suspense account to ensure suspense account items are resolved within a reasonable timeframe.

Current Status: **Implemented.** The Redemption Supervisor performs a supervisory review of the suspense account periodically to ensure items are resolved within a reasonable timeframe. The Supervisor prints "PD30" screens from the Assessment Tax System (ATS) that show items in the suspense account. She selects items from the printed screens for review and resolution. Therefore, we consider this recommendation implemented.



## 2. Monitoring of Penalty Cancellations (Control Finding)

We recommend TTC strengthen controls over penalty cancellations by ensuring processed penalty cancellations are spot checked using an ATS report showing all processed penalty cancellations.

Current Status: **Implemented.** The Redemption Supervisor performs periodic reviews of penalty cancellations. The Supervisor prints "PD30" screens in ATS that show penalty cancellations. She selects items and reviews the cancellations for appropriateness. Therefore, we consider this recommendation implemented.

## 3. Retention of Taxpayer Installment Plan Agreement Sheets (Control Finding)

We recommend the TTC ensure all documents related to installment plans, including "Taxpayer Information Regarding Installment Plan" agreement sheets are retained.

Current Status: **Implemented.** The Redemption Supervisor periodically generates reports showing taxpayer installment plans. She selects a sample of accounts and ensures the "Taxpayer Information Regarding Installment Plan" agreements are scanned into ERMI. We judgmentally selected 5 installment accounts that were not reviewed by the Redemption Supervisor. We verified the "Taxpayer Information Regarding Installment Plan" agreement was scanned into ERMI without exception. Therefore, we consider this recommendation implemented.

## 4. Time to Redeem (Control Finding)

We recommend the TTC revise the "Notice of Impending Tax Collector's Power to Sell" form to indicate the right of redemption will terminate at 5:00 p.m. on the last business day prior to the date the tax sale begins.

Current Status: **Implemented.** We observed the current "Notice of Impending Tax Collector's Power to Sell" letters and noted the letters indicated the right of redemption will terminate at 5:00 p.m. on the last business day prior to the date the tax sale begins. In addition, this information is included on the Treasurer-Tax Collector's website. Therefore, we consider this recommendation implemented.

## 5. Segregation of Duties (Control Finding)

We recommend the TTC segregate duties to ensure the person primarily responsible for processing redemption transactions does not also have reconciliation duties.

Current Status: **Implemented.** Staff in the Budget Section of the Treasurer-Tax Collector prepare reconciliations. The Budget Manager reviews and approves reconciliations. Neither process redemption transactions. Therefore, we consider this recommendation implemented.



## 6. Timely Review of Reconciliations (Control Finding)

We recommend the TTC ensure account reconciliations are reviewed by a supervisor in a timely manner.

Current Status: **Implemented.** We reviewed the reconciliations prepared for redemption accounts for January and February 2010 (seven reconciliations each month). All reconciliations for January 2010 were reviewed within 30 days of month-end. All reconciliations for February 2010 were reviewed within 60 days of month-end. Since reconciliations are being reviewed within 60 days of month-end, we consider this recommendation implemented.

## 7. Accounting Statements by TTC to Auditor-Controller (Control Finding)

We recommend the TTC ensure its "Secured and Supplemental Redemption Collection Reports" are submitted to the Auditor-Controller at least once every twelve months.

Current Status: **Implemented.** We observed the "Secured and Supplemental Redemption Collection Reports" for fiscal year 2008-2009 and found they were submitted to the Auditor-Controller within the required timeframe. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of the Treasurer-Tax Collector during our First Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Chriss W. Street, Treasurer-Tax Collector  
Paul Gorman, Chief Assistant Treasurer-Tax Collector  
Jennifer Burkhart, Assistant Treasurer-Tax Collector  
Robin Russell, Assistant Treasurer-Tax Collector, Administration  
Dan Puglia, Budget Manager, Treasurer-Tax Collector  
Ginika Ezinwa, Accounting/Compliance Manager, Treasurer-Tax Collector  
Patricia Hutt, Redemption Supervisor, Treasurer-Tax Collector  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors